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Alberta ECONOMIC OUTLOOK

FEBRUARY, 1974

ALBERTA – NATIONAL AFFAIRS

The forecasts presented at the Canadian Agricultural Outlook Conference, held towards the end of January, 1974, can be described as "reserved optimism." The outlook for most agricultural commodities is clouded by how uncertain the current market is and how radically it was apt to change. Nonetheless, it was evident that 1973 was one of the best years on record for the Canadian agricultural industry and provided conditions are not altered substantially, 1974 should likely be even better.

Mr. W. L. Porteous, Director, Agricultural Division, Statistics Canada, indicated that realized net farm income in Canada increased to a record level of almost $3 billion, a gain of more than $800 million, in 1973 and realized net farm income is forecast to increase further in 1974 to reach an all time high of $4.6 billion, an increase of over 50 percent. Total farm cash receipts in Canada were estimated to reach $6.9 billion in 1973, 27.7 percent higher than in 1972, and were forecast to increase to approximately $9 billion in 1974, or an over 30 percent increase. Mr. Porteous attributed most of the expansion in cash receipts to strong world grain prices whose major beneficiaries will be farmers in the prairie provinces, while a much smaller increase is expected in the receipts from livestock and livestock products. In Alberta, total farm cash receipts increased by over 30 percent in 1973, and probably at least an equivalent rise in 1974 can be expected.

Mr. S. W. Garland of Agriculture Canada predicts that wheat acreage in Canada will increase to 28 million acres in response to increased export and domestic demand plus the need to replenish the relatively low level of wheat stocks. Indications are however, that world wheat production could reach record amounts in 1974, which could cause some softening of prices. Mr. Garland however, does not foresee the world wheat prices dropping below the levels of two years ago. In Alberta, shipments of grain from Alberta elevators decreased by over 16 percent in 1973, but some recovery in shipments is expected for 1974.

Canada is expected to have increased beef supplies in 1974 according to F. E. Payne, Director, Livestock Division, Agriculture Canada. Unfortunately however, the uncertain atmosphere that upset the industry last year is expected to continue and make precise prediction of supply and price levels difficult. In Alberta, livestock marketed declined by over 6 percent in 1973, with a further decline, although possibly not as great, expected for 1974.

ALBERTA – PROVINCIAL AFFAIRS

ALBERTA FOREST PRODUCTS SECTOR 1973 REVIEW – 1974 FORECAST

The Alberta lumber sector has just completed its best year ever with a record production of 680 million board feet – up from 580 million the year before. In spite of record lumber prices in 1972, they were exceeded in the summer of 1973 when the average price at the mill was $133 per thousand board feet. Most of Alberta's lumber is exported to the United States, and although these shipments were up only 2 percent for the first eleven months, the U.S. wholesale price index for lumber in late summer was up 29.7 points from a year earlier. The Alberta export trends basically parallel total Canadian exports which were up 3.5 percent to the U.S. for the first nine months. Lumber prices traditionally fall in the winter and 1973 ended with their plumenting from the record highs a few months earlier. The major industrial development in 1973 was the start-up of the Procter and Gamble pulp mill at Grande Prairie in August.

The Forest Products Committee on the national Economic Outlook Conference has recently prepared an outlook which has a general relevance to the performance of the Alberta forest products industry. The Report shows

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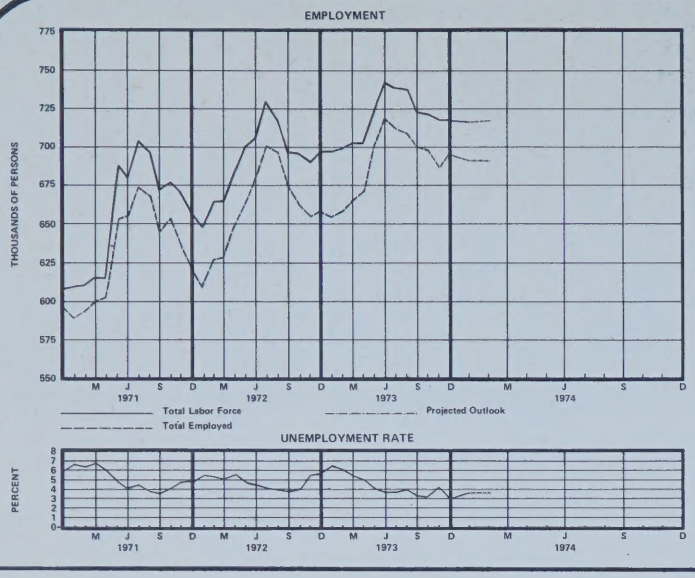
Alberta
INDUSTRY AND COMMERCE

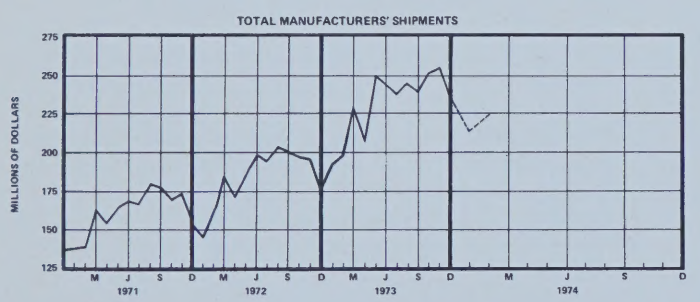


EMPLOYMENT

The unemployment rate in January 1974, was 3.6 percent, an increase of .5 percentage points from the previous month, but a decrease of 2.6 percentage points from January 1973. The number employed decreased by 5,000 in January, but still was 38,000 above the January 1973 level. The number of unemployed increased by 4,000 in January, but was still 17,000 below the January 1973 figure. For February, the labour force is expected to be approximately 716,000, with the total employed and unemployed at 690,000 and 26,000 respectively. The experience of the past few months makes it difficult to predict for March, however, a slower rate of growth in employment should result in some increase in the unemployment rate.

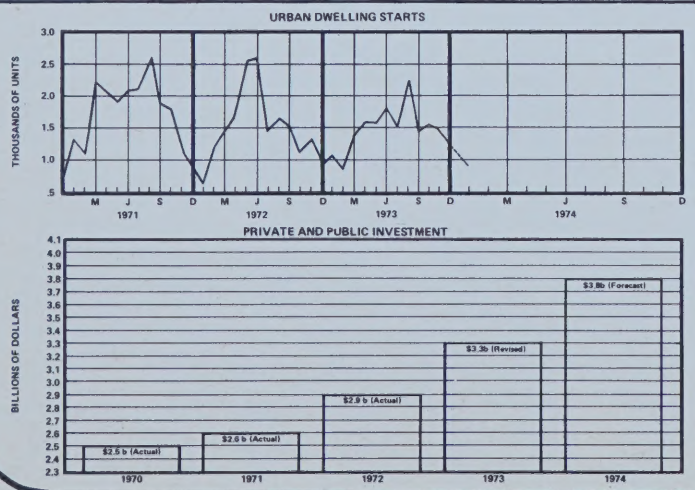
RETAIL TRADE

The large increase in retail trade forecast for December did not materialize. December's monthly total of $345.1 million, was 12 percent above the December 1972 value. The preliminary total retail trade value for 1973 is estimated at $3,139 million, a 13 percent increase from the 1972 level. On this basis therefore, the January 1974 revised forecast for retail trade becomes $237 million, a 10 percent increase over the January, 1973 figure. Prospects for February, 1974 indicates a value of approximately $231 million.



MANUFACTURING SHIPMENTS

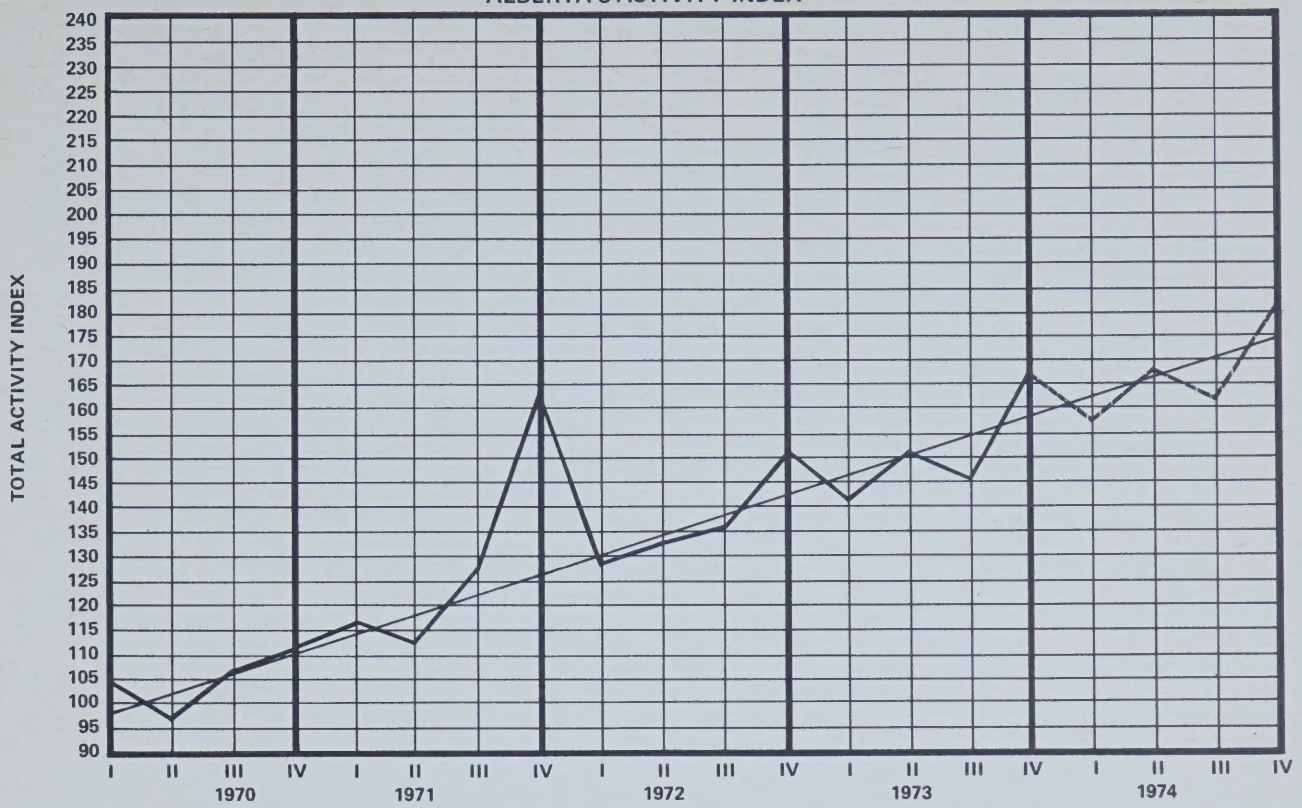
To the end of December, 1973, the value of total manufacturing shipments reached $2,795 million, a 21 percent increase over the 1972 level. December's total rose by over 27 percent from December, 1972 to $238 million. The forecast for January, 1974 has been revised downwards slightly to $214 million. Prospects for February, 1974, indicates a slight increase to a value of approximately $224 million.



HOUSING

Urban dwelling starts in December totalled 1206, an increase of almost 31 percent from December, 1972. To the end of the year, total starts amounted to 17,037, slightly over 7 percent less than the 1972 level. A revised forecast for January, 1974 indicates about 911 starts, and the starts for the first quarter of 1974 is expected to be about 2,800. We still are holding to our initial forecast for 1974 of a slight increase in total starts, which means the number of starts for 1974 is expected to approach approximately 17,100.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971-72	Total Year 1972-73	Year to Date 1973-72
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- 2.2 (Jan. – Dec.)
Slaughtered Meat Exported	+12.6	+ 5.3	- 0.6 (Jan. – Dec.)
Refinery Production	+10.7	+21.4	- 0.1 (Jan. – Nov.)
Cement Production	+ 4.5	+ 3.5	+ 7.8 (Jan. – Dec.)
MINING			
Oil Production	+ 9.4	+20.8	+20.9 (Jan. – Nov.)
Gas Production	+10.1	+16.8	+ 4.0 (Jan. – Nov.)
Footage Drilled	+ 1.8	+21.9	+31.6 (Jan. – Nov.)
Number of Wells Drilled	+ 9.6	+13.1	+30.9 (Jan. – Nov.)
Coal Production	+31.7	+14.1	+ 0.1 (Jan. – Nov.)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 7.2 (Jan. – Dec.)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	- 1.7 (Jan. – Dec.)
Value of Alberta Building Permits	+35.2	+12.1	+20.0 (Jan. – Dec.)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 16.4 (Jan. – Dec.)
Livestock Marketed	+15.1	- 1.6	- 6.4 (Jan. – Dec.)
Farm Cash Receipts	+ 9.8	+14.0	+32.3 (Jan. – Dec.)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+30.3 (Jan. – Dec.)
Lumber Sales	+34.7	+ 5.7	+17.5 (Jan. – Dec.)
Lumber Exports	+26.5	+24.7	+ 1.2 (Jan. – Dec.)
Pulpwood Production	- 34.9	+47.8	+46.6 (Jan. – Dec.)

UNEMPLOYMENT RATE (Unadjusted)	JANUARY 1974	DECEMBER 1973	JANUARY 1973	DECEMBER 1972
Canada	6.9	5.5	7.7	6.5
Alberta	3.6	3.1	6.2	5.3
CONSUMER PRICE INDEX (1961 = 100)				
Calgary–Edmonton	147.8	146.8	137.1	135.8

that Canada now has a surplus (annual allowable cut minus annual harvest) of some 4 billion cubic feet of timber which is adequate for continued expansion of the industry for the next 10 to 15 years. Due to the dependence of this industry on economic conditions elsewhere, it must be competitive in worldwide terms if it is to fully realize its potential.

Between now and the end of 1975, the forest industries as a whole should grow at an average rate of 3 to 4 percent. For the period beyond 1975, there is a good possibility that Canada's forest industries could achieve an average annual growth of 5 percent, given an attractive economic environment. To realize its potential, the companies will have to be well managed and alert to marketing opportunities. Provincial authorities are considering revisions to the conditions of forest tenure to ensure adequate supplies of wood at an economic price in the long term.

The outlook for 1974 is largely determined by the level of housing starts in the U.S. Economists at the F. W. Dodge Division, McGraw-Hill Information Systems Co. predict a recovery this Spring which will bring house--building back to a level of 2 million starts by the end of 1974. This prediction contradicts most other forecasts which indicate a further decline in housing starts to 1.5 million. The total housing starts, at 1.6 million for 1973, was the first time in two years it had been less than 2 million. The energy crisis is partly behind the housing slump, but early signs of improvement are appearing in the mortgage market, as reflected by the recent drop in U.S. mortgage rates.

There are ten industrial products in the wood products group now under construction or proposed for Alberta this year, with a total capital value of $40 million. Largest of these is the sawmill and laminated beam mill of Simpson Timber Company at Whitecourt, followed by the flakeboard plant of Alberta Aspen Board Ltd., at Slave Lake. Expansion to existing plants are expected at various locations throughout the Province.

ALBERTA – INTERNATIONAL AFFAIRS

Despite the promise President Nixon gave in his recent State of the Union Address that 1974 would not see a recession in the United States, there is nothing in recent events to support such a view. His Budget for the new fiscal year beginning in June, although ten percent greater than for the current year at $304.4 billions, will unlikely provide sufficient stimulus to prevent a recession in the first half of 1974. The President's own Council of Economic Advisers expects real growth in the first two quarters of 1974 to be zero or negative although sufficient positive growth is expected in the last two quarters to raise the growth rate for the year to 1 percent.

ALBERTA – BUSINESS OUTLOOK

The Financial Post's latest quarterly of consumer buying intentions and attitudes indicate total consumer expenditures in 1974 will likely increase by 4.5 percent. This figure is lower than the estimated 8 percent gain that was made in 1973. The main reason for the decline is slackening expenditure on durables which is not expected to grow at all in 1974 in comparison with an increase of 18 percent registered in 1973.

R. Rene de Cotret in the first edition of the Conference Board in Canada's new publication, the *Canadian Business Review,* strikes an optimistic note with regard to the Canadian economic outlook for 1974. This optimism is founded upon the continuing strength of demand. He points out that the ratio of inventories to sales is well below the long term trend, indicating that inventory accumulation will provide strong support for economic activity during the coming year. Capital spending is also expected to be exceptionally high and may indeed exceed expectations if actual investment follows the usual pattern of overtaking intentions, but material shortages make this unlikely. In addition consumption spending, excepting durables, is holding up and will be supported in 1974 by increments to family allowances, increased income support programmed and the indexing of personal income taxes and certain pensions.

M. De Cotret expresses concern over unfilled orders and lengthening delivery dates, especially for steel, building materials and pulp and paper. Also the decline in real income per employed person, which has been going on since the last quarter of 1972, does not augur well either for industrial peace or cost stability during 1974, although it must be said that rapid advances in money wages will bolster consumer spending.

There may also be problems in capital markets. Although profits expanded at an average annual rate of 30% in 1973 almost a third of this can be traced to an inflationary increase in inventory values. In addition, when in inflationary times capital is depreciated on the basis of original rather than replacement cost, internal financing of new capital becomes more difficult. As a consequence of these factors business may well need to finance a larger proportion of investment through the capital markets, throwing a strain upon them which they will find difficult to support. This may prove a limiting factor to increased supplies of some goods and materials.

In the final analysis M. de Cotret feels that despite these serious strains the basic strength of demand, in conjunction with the Bank of Canada's moderate monetary policies will ensure strong though inflationary growth during 1974.

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